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PARLIAMENTARY DEBATES



THE SENATE

PROOF

MATTERS OF PUBLIC INTEREST

Liquefied Natural Gas

SPEECH

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Speaker Sterle, Sen Glenn

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Senator STERLE (Western Australia) (13:11): After that contribution, it sounds like a job interview for Senator Sinodinos's vacant position. On that, I would like to make a contribution in regard to the Chevron Gorgon LNG project in the north-west of WA.

During the approvals process for the Gorgon project Chevron made promises to the community of Western Australia and its workers that it would work to employ local businesses and workers as a priority. Chevron claimed that the project would create 3,500 direct construction jobs and 10,000 direct and indirect jobs at peak construction, 300 ongoing jobs during the operational phase and an increase to the state's gross product of no less than four per cent. They also claimed an increase to Australia's GDP of more than \$60 billion and the creation of new industries based around CO2 injection and subsea development.

Now that it is facing a budget blow-out on the project—of no less than \$15 billion—and delays, Chevron is now renegeing on these undertakings and blaming, would you believe, the workers and the local industrial-relations environment rather than, as many have suggested, poor management decisions. Chevron is attempting also to bully and intimidate workers by suing the Maritime Union of Australia, the MUA, and putting pressure on government to reduce regulations on wages and conditions. The MUA is simply attempting to look after the interests of the workers and its members and secure an appropriate agreement for them—which it should be doing; no argument.

I want to share with the chamber a few quick facts about Gorgon. The Gorgon project is the single largest foreign-resource project in Australia. For Chevron it is the largest LNG project ever. At present, it is the company's single largest upstream project and could add somewhere between US\$40 billion and US\$60 billion a year in revenue. In each of the past two Decembers Chevron has released new information about Gorgon increasing the projected cost of the project and delaying the timing of the first gas delivery. Originally scheduled to have first gas in 2014 there are growing concerns about the delay, with 2015 the most optimistic start-up date.

Shell, one of the project's joint-venture partners, believes the date could be at least 2016 and possibly

as late as 2018. The Gorgon project is more than \$15 billion over budget and is, so far, 18 months delayed. Chevron continues to blame Australian workers, regulations and the political environment—despite significant project management missteps. Originally costed at US\$37 billion, the budget is now running at US\$54 billion. Not only is the project over budget and delayed but Australian companies that were working on the project have, sadly, gone bankrupt; infrastructure that was expected in surrounding communities has not been delivered; and the quality and quantity of jobs produced has been nowhere near sufficient. The Gorgon project is quickly becoming synonymous with the tag: 'the white elephant megaproject'. Some analysis shows it as the most delayed and over budget LNG project in Australia, yet Chevron has given its shareholders extremely rosy projections and has only slowly revised costs and delay estimates.

Other Gorgon project owners, Shell and the Japanese utilities, who are not as closely associated with the project's management—or should I say mismanagement—have different projections and timetables for completion. Despite extensive negotiations with and commitments from Chevron, the company is now reporting that it is having trouble getting commitments from customers for as much as one-third of the LNG that will be produced. Apache, one of Chevron's co-owners on Wheatstone, is pulling out of the project, seemingly less optimistic about its operations and prospects. Local company management and business lobby groups have unfairly blamed workers for the problems on the Gorgon project as they and their representative unions seek to negotiate, as they should, new enterprise bargaining agreements—in particular for maritime workers working in the offshore oil and gas sector, a very tough, harsh job which these guys and girls do fantastically well.

A report undertaken by Bradon Ellem, Professor of Employment Relations at the University of Sydney Business School, found the Gorgon delays and cost blowouts are due to a range of logistical factors and poor management decisions, with unions, wages and IR playing a negligible role overall. I want to emphasise this, because there is a sting in the tail here. The report is the first and only thorough analysis of the project's issues to date and its findings run contrary to commentary about the project from local Chevron

management and business lobby groups, which has suggested that changes to IR laws could relieve the problems Chevron is facing. The report, entitled *What is happening on Chevron's Gorgon project?*, has found not only that wages are only a small part of the costs but that most of the figures used in the public debate have been misleading. It finds that the massive blowout in costs is mainly due to logistical delays and that such delays are common with megaprojects that do not have easy precedent. The report's findings are consistent with research undertaken by BIS Shrapnel which found that the wages of maritime workers make up less than one per cent of the US\$54 billion cost of building Gorgon. The University of Sydney report also found that workers on the project have been frustrated by lack of consultation from management, which potentially could have prevented many of the delays. The report presented numerous examples of how time and money could have been saved through closer engagement with the workforce.

There is a lesson in this not just for Chevron but also for media commentators pushing for IR deregulation as some sort of economic panacea. The real key to unlocking Australian workplace productivity is through engagement and consultation between management and workers, not through screwing down wages and conditions in an adversarial environment. This is just so basic. Gorgon is an important project for Chevron and its development of nationally owned resources is in Australia's national interest. Gorgon is one of the largest LNG projects in the world and it is seeing Australian national assets being developed in an Australian national park. It is imperative that Chevron develops a good industrial relationship with those working on the project.

Chevron is responsible for ensuring compliance with the Gorgon Gas Processing and Infrastructure Project Agreement. This includes ensuring that contractors and subcontractors also meet the agreement's obligations. Rather than attempting to operate within these obligations or to engage with its workforce—heaven forbid—Chevron has stigmatized Australia as an overregulated, high-cost jurisdiction. They have subsequently sought to extract more benefits from Australian institutions, reneged on commitments and failed to operate according to Australian industry norms.

A recent example of poor management of the project by Chevron can be found in the 10-day shutdown of Gorgon's main load-out facility, Subsea 7, in May of this year. The shutdown was caused by several significant safety incidents, including no fewer than two crane rollovers and a man overboard. Despite these very serious incidents and continued requests from union members for extra safety precautions at the

site, contractors and subcontractors continued to force workers to operate in an unsafe environment until the Maritime Union made direct contact with the CEO of Chevron Australia, Roy Krzywosinski, about its grave concerns about work safety. Can you believe that this has happened in 2014 on a major infrastructure project in Australia?

I have not made it up. This is fair dinkum. And for the Maritime Union to have to contact the CEO himself is an absolute indictment of those contractors and subcontractors who are employed on that site. This is just one example—only one—of the poor management provided by Chevron's Australian headquarters.

As a Western Australian senator, I am so concerned about the failure of Chevron to live up to its obligations to the people of Western Australia that I have written to the U.S. Securities and Exchange Commission to ask for a full accounting of the Gorgon Project's risks and prospects, so that we can have an open examination of how Chevron has, sadly, mismanaged this project, rather than excuses. Instead of using workers and the Maritime Union of Australia as scapegoats for delays and cost blow-outs that were, in fact, caused by poor management decisions and a softening of the LNG market, Chevron should engage with its workforce. Its workforce is as committed to the success of the Gorgon Project as the Chevron management. Chevron should be held accountable for the overblown promises it made during the approvals process and should be required to fulfil its obligations to the Western Australia community and, most importantly, to its workforce.